

Financial Report

Bay de Noc Community College

*Year ended June 30, 2008
with Report of Independent Auditors*

Bay de Noc Community College

Financial Report

Year ended June 30, 2008

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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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Report of Independent Auditors

Board of Trustees
Bay de Noc Community College
Escanaba, Michigan

We have audited the accompanying financial statements of Bay de Noc Community College (College) as of June 30, 2008 and for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Bay de Noc Community College Foundation, a discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bay de Noc Community College as of June 30, 2008 and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2008, on our consideration of Bay de Noc Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis presented on pages 3 through 12 is not a required part of the financial statements, but is supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Bay de Noc Community College's basic financial statements. The combining fund financial statements, comparative financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Bay de Noc Community College. The combining fund financial statements, comparative financial statements, schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The 2007 comparative financial information on pages 34 – 36 was subjected to the auditing procedures applied in the 2007 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2007 basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Anderson, Tackman & Company P.C." in a cursive, flowing script.

Anderson, Tackman & Company, PLC
Certified Public Accountants

October 31, 2008

Bay de Noc Community College

Management's Discussion and Analysis

June 30, 2008

The discussion and analysis of Bay de Noc Community College's financial statements provides an overview of the College's financial activities for the year ended June 30, 2008. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the accuracy and completeness of this information rests with the College's management.

Using this Report

The College's financial statements have been prepared in accordance with the following standards.

In June 1999, the Governmental Accounting Standards Board (GASB) released statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Changes in Statement No. 34 require a comprehensive one-line look at the entity as a whole, including capitalization and depreciation of assets. In November 1999, GASB issued Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which applies these standards to public colleges and universities. The State of Michigan has adopted these standards and has revised and issued the *Manual for Uniform Financial Reporting for Michigan Public Community Colleges, 2001*. Subsequent GASB statements, when applicable, have been implemented as well.

Component Unit

In May 2002, GASB released Statement No. 39 *Determining Whether Certain Organizations are Component Units*. Statement No. 39 requires that separate legal entities associated with a primary government that meet certain criteria be included with the financial statements of the primary reporting unit. In compliance with this statement, the Bay de Noc Community College Foundation is reported as a component unit of the College and its' financial activity is discretely reported herein.

This annual financial report includes the report of independent auditors, this management's discussion and analysis, the basic financial statements in the above referenced format, notes to the financial statements and supplemental information.

Bay de Noc Community College

Management's Discussion and Analysis

Financial Highlights

The College's financial position improved significantly during the fiscal year ended June 30, 2008 with a \$3.4 million increase in total net assets. The College's financial position remains healthy as of June 30, 2008, with \$33.7 million in assets, \$15.1 million in liabilities and a net asset balance of \$18.6 million.

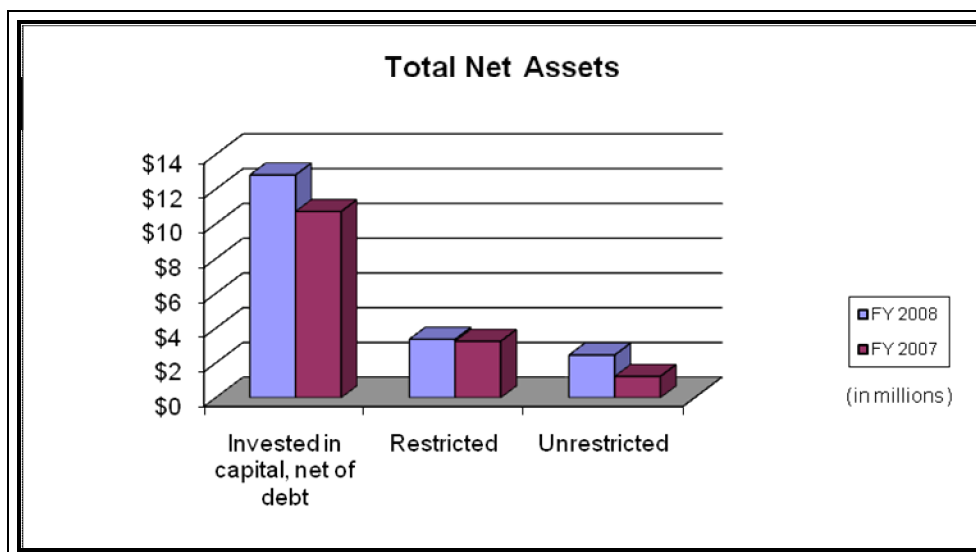
The College's cash position was increased from \$2.7 million on June 30, 2007 to \$4.1 million on June 30, 2008. This significant increase in cash position is due to the restoration and receipt of \$450,000 of fiscal year 2006-07 state aid cuts, energy loan payoffs, and the balance of student center construction bond proceeds remaining as of June 30, 2008.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information on the College as a whole. These statements report the College's financial position as of June 30, 2008 and changes in net assets for the year then ended.

When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as Bay de Noc Community College's operating results. The College's net assets at June 30, 2008 increased \$3,444,640 (22.7%) from the prior fiscal year that ended June 30, 2007.

Three categories of net assets increased in fiscal year 2008, with the most significant growth occurring in net assets invested in capital, net of related debt. This growth is the result of a state capital outlay grant for the construction of a new campus in Dickinson County, which was substantially completed in the fiscal year ended June 30, 2008, and the acquisition of land adjacent to the West Campus facility.



Bay de Noc Community College

Management's Discussion and Analysis

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets (continued)

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Following are the major components of assets, liabilities and net assets (in thousands) for the College as of June 30, 2008 and 2007:

	June 30	
	2008	2007
Current assets	\$ 8,053	\$ 5,443
Noncurrent assets:		
Capital assets, net of depreciation	25,079	22,934
Other	556	1,014
Total assets	<u>\$ 33,688</u>	<u>\$ 29,391</u>
Current liabilities	\$ 3,123	\$ 2,285
Long term liabilities:		
Bonds payable	11,155	11,180
Other	767	728
Total liabilities	15,045	14,193
Net assets:		
Invested in capital assets	12,819	10,769
Restricted – energy loans	1,882	1,977
Restricted – other	1,483	1,059
Unrestricted	2,459	1,393
Total net assets	<u>18,643</u>	<u>15,198</u>
Total liabilities and net assets	<u>\$ 33,688</u>	<u>\$ 29,391</u>

The June 30, 2007, unrestricted net assets are increased by \$162,275 due to the reclassification of net assets previously reported as other restricted net assets. This reclassification of June 30, 2007 net assets is made to conform with the 2008 presentation.

The significant increase in current assets is due to the improved cash position, up \$1,372,668 over the prior fiscal year end, \$544,455 increase in state funding receivable due to increased support over prior fiscal year, and \$936,954 increase in the amount due from the college's component unit (foundation) which is attributed to outstanding construction invoices for work through June 30, 2008.

The completion of the West Campus facility including equipment and furnishings, renovation of the student center, and the acquisition of land adjacent to the West Campus property result in a significant increase in capital assets, net of depreciation.

Bay de Noc Community College

Management's Discussion and Analysis

The Michigan Public Service Commission funded energy efficiency revolving loan program non-current loans receivable declined \$438,075 from the prior fiscal year due to loan payoffs during the fiscal year ended June 30, 2008.

Foundation construction invoices outstanding at June 30, 2008, accounts for the significant increase in current liabilities.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets (continued)

Following are the major components of the College's revenues and expenses (in thousands) for the years ended June 30, 2008 and 2007:

	Year ended June 30	
	2008	2007
Operating revenues:		
Net tuition and fees	\$ 3,906	\$ 3,360
Grants and contracts	3,697	3,696
Auxiliary activities	154	388
Other	1,528	665
Total operating revenues	9,285	8,109
Operating expenses	17,293	15,609
Operating loss	(8,008)	(7,500)
Non-operating revenues (expenses)		
State appropriations	7,658	7,851
Property taxes	3,687	3,519
Gifts and donations	518	26
Investment income and other	95	81
Interest expense on bonds	(505)	(223)
Total non-operating revenues	11,453	11,254
Increase (decrease) in net assets	3,445	3,754
Net assets – beginning of year	15,198	11,444
Net assets – end of year	\$ 18,643	\$ 15,198

Operating Revenues

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, business and industry contract training and housing operations. In addition, certain federal, state and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

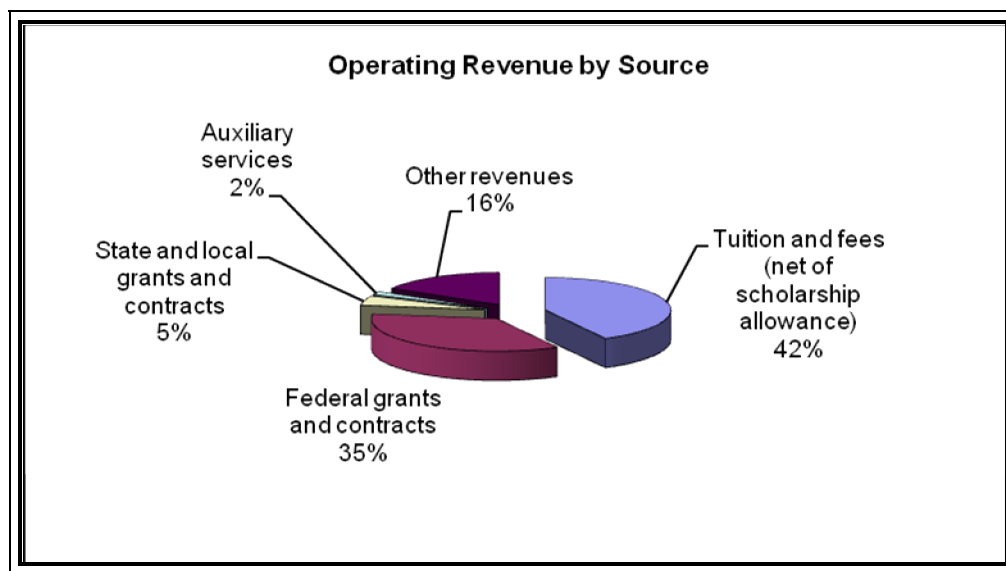
Bay de Noc Community College

Management's Discussion and Analysis

Total operating revenues increased \$1,175,913 over the prior fiscal year. Operating revenue changes were the result of the following factors:

- Student gross tuition and fee revenue increased \$773,337 (14.9%) while federal and state student financial aid applied to tuition and fee charges increased \$227,561 (12.4%) over the prior fiscal year ended June 30, 2007. The result is an increase in net tuition and fee revenues of \$545,776 or 16.2% which is largely attributed to the fall 2007 opening of the West Campus and across the board tuition rate increases.
- Auxiliary service revenues declined \$234,468 over the prior fiscal year due to the outsourcing of the College's bookstore operation in July 2007.
- Other revenues increased \$863,622 over the prior fiscal year due to the commencement of the Dickinson County Board of Commissioners 20-year contract for the delivery of educational services at the new West Campus location. The contract provides 1 mill of Dickinson County property tax revenue levied and collected by the Board of Commissioners for the construction, operation and maintenance of the West Campus facility located in Iron Mountain.

The following is a graphic illustration of operating revenues by source:



Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the College. Total operating expenses increased by \$1,684,779 or 10.8% over the prior fiscal year due in large part to the addition of the West Campus which opened in August 2007. The changes in operating expenses were the result of the following factors:

Bay de Noc Community College

Management's Discussion and Analysis

- Instructional expenses increased by \$543,604 due in large part to the addition of five new full-time faculty positions which were assigned to newly opened West Campus facility.
- Instructional support expenses decreased \$237,155 due to elimination of the Dickinson County instructional facility lease, and some staff adjustments.
- Student service expenses are down \$115,433 due to a significant (\$227,561) increase of scholarship allowances (student financial aid applied to tuition and fees charges). Closure of the college managed bookstore also contributed to \$241,600 reduction in expenses.
- Institutional administration expenses increased \$441,570 over the prior year with \$293,603 of this increase attributed to West Campus expansion. The college increased its' utilization of consultant services and its focus on staff professional development which account for some of the increase in administrative expenses.
- Plant expenditures are up \$453,613 over the prior year with \$181,624 directly attributed to operation of the West Campus facility and \$226,226 related to plant fund expenditures for goods that are below the \$5,000 capitalization threshold and are therefore expensed.
- Information technology expenses increased \$182,593 due to the addition of West Campus personnel, an increase in software maintenance expenses, and an increase in the use of consultants.
- Depreciation expenses increased \$362,405 over the prior fiscal year due to the addition of the West Campus.

The following is a summary of operating expenses by functional area for the fiscal year ended June 30, 2008 and the prior fiscal year:

<i>Operating Expenses</i>	<i>2008</i>	<i>2007</i>	<i>Increase/ (Decrease)</i>	<i>%</i>
	(in thousands)			
Instruction	\$ 6,213	\$ 5,699	\$ 544	9.6%
Instructional support	2,200	2,437	(237)	-9.7%
Public services	302	249	53	21.6%
Student services	2,080	2,196	(115)	-5.3%
Institutional admin	2,193	1,751	441	25.2%
Operation and main of plant	1,885	1,431	454	31.7%
Information technology	913	730	183	25.0%
Depreciation	1,508	1,146	362	31.6%
	<u>\$ 17,294</u>	<u>\$ 15,609</u>	<u>\$ 1,685</u>	<u>10.8%</u>

Bay de Noc Community College

Management's Discussion and Analysis

Nonoperating Revenues

Nonoperating revenues are all revenue sources that are primarily nonexchange in nature. They would consist primarily of state appropriations, property tax revenue, investment income (including realized and unrealized gains and losses), and grants and contracts that do not require any services to be performed.

Nonoperating revenue changes were the result of the following factors:

- In March 2007, Governor Granholm issued executive order 2007-03 which reduced state appropriations by \$365,000 and provided a corresponding credit of \$140,000 for employer contributions to the Michigan Public School Retirement System. The net reduction in state funding was \$225,000. On June 6th, 2007, Public Act 17 was signed into law further reducing the College's fiscal year 2006-07 state appropriations by another \$225,000. The Governor and Michigan Legislature restored the \$450,000 in prior year state appropriation reductions in October 2007, which are reflected in June 30, 2008 non-operating revenues.
- The Michigan Legislature appropriated \$5.8 million in support of the construction of the College's West Campus in Dickinson County. This funding was provided as a match to local support for construction of the campus. After expenditure of the local match in fiscal year 2006-07, the State paid \$3,490,898 in construction costs for this project during the fiscal year ended June 30, 2007 and \$2,121,069 during the fiscal year ended June 30, 2008.
- The College's Foundation gifted \$517,847 in capital assets to the College during the fiscal year just ended, which includes the purchase of land adjacent to the new campus.

Nonoperating Expenses

- Interest on capital asset related debt increased \$280,736 over the prior fiscal year. This increase is due in part to the West Campus bond interest expensed in the current fiscal year, while the prior fiscal year interest of \$257,589 was capitalized to the project cost during the period of construction. Additionally, the College issued new debt in fiscal year 2007-08 to fund renovation of the Student Center administrative offices.

Statement of Cash Flows

The Statement of Cash Flows provides relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows also helps users assess:

- An entity's ability to generate future net cash flows
- Its' ability to meet its' obligations as they come due
- Its' need for external financing

Bay de Noc Community College

Management's Discussion and Analysis

Cash flows for the year ended June 30, 2008 and 2007 (in thousands)

	<u>2008</u>	<u>2007</u>
Cash provided (used) by:		
Operating activities	\$ (6,242)	\$ (6,152)
Noncapital financing activities	9,719	12,075
Capital and related financing activities	(2,172)	(10,452)
Investing activities	<u>68</u>	<u>45</u>
Net increase (decrease) in cash	1,373	(4,484)
Cash, beginning of year	<u>2,681</u>	<u>7,165</u>
Cash, end of year	<u>\$ 4,053</u>	<u>\$ 2,681</u>

The College's cash and cash equivalents increased by \$1,372,668 to \$4,053,465 on June 30, 2008. This increase is due in part to the \$450,000 restoration and receipt of the fiscal year 2006-07 reduction in state appropriation, energy loan payments and loan payoffs, and the issuance of bonds to finance renovation of the Student Center.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2008, the College had \$25.1 million invested in capital assets, net of \$24.5 million in accumulated depreciation. The College made capital investments of \$3,653,689 and deleted capital assets totaling \$121,498 in fiscal year 2008. June 30, 2007, construction in progress assets totaling \$9,817,349 were placed into service during the fiscal year ended June 30, 2008. Depreciation charges for the fiscal year ended June 30, 2008 totaled \$1,508,152. Details of these assets for the past two years are shown below.

<i>CAPITAL ASSETS, NET</i>	<u>2008</u>	<u>2007</u>	<u>Increase/ (Decrease)</u>
Land and improvements	\$ 1,304,266	\$ 929,654	\$ 374,612
Infrastructure	21,642	30,319	(8,677)
Construction in progress	689,126	9,817,349	(9,128,223)
Buildings and improvements	21,390,972	10,893,107	10,497,865
Furniture, fixtures and equipment	1,541,282	1,158,684	382,598
Library materials	60,362	56,686	3,676
Vehicles	<u>71,719</u>	<u>48,035</u>	<u>23,684</u>
 TOTAL	 <u>\$ 25,079,369</u>	 <u>\$ 22,933,834</u>	 <u>\$2,145,535</u>

Capital assets are primarily funded through the issuance of bond debt, state capital appropriations, private gifts and donations, and property tax revenues dedicated to capital asset maintenance and replacement.

Bay de Noc Community College

Management's Discussion and Analysis

The Board of Trustees approved bonding \$1.1 million to fund renovation of the Student Center which houses Student Services administrative offices. This renovation will create an open space one-stop shop for students seeking admission, advising, registration, financial aid and/or tuition payment services. The student service administrative office renovation costs through June 30, 2008 are reported in Construction in Progress.

The College's Foundation received a gift of \$4.75 million to construct a performing arts center on the College's main campus. The Performing Arts Center will expand and significantly enhance an existing auditorium in the College's Learning Resource Center. The performing arts center will be constructed by the Foundation and gifted to the College upon completion. Completion is expected in the fall 2008.

The College has invested \$14.2 million in furniture, fixtures and equipment, which have an accumulated depreciation of \$12.7 million. A significant portion of these assets have been fully depreciated (useful life range is 3-to 10 years), yet these assets continue to provide functional benefit and utility for the College.

The Board of Trustees levied 3.5225 mills in fiscal year 2008 to support college operations (2.0 mills), pay debt obligations (0.9603 mills), and fund the maintenance and replacement of capital assets (.5622 mil).

Debt

The College had \$12.3 million in bonds outstanding on June 30, 2008, which is \$89,300 more than on June 30, 2007, due to issuance of \$1,085,000 in new debt offset by the retirement of \$995,700 in bond principal during the fiscal year ended June 30, 2008.

The College issued \$2,775,000 in new bond debt during the fiscal year with \$1,690,000 used to refund the 1997 Facilities and Site Bonds and the 1999 Facilities and Site Bonds. The 1997 F&S Bonds totaling \$1,250,000 were called in November 2007. The 1999 F&S Bonds are not callable until May 2009. Until that time, the \$440,000 to retire these bonds will be held by the escrow agent.

Economic Factors That Will Affect the Future

As the Michigan economy struggles to rebound, community colleges across the state are experiencing increasing enrollments. The Board of Trustees held Delta County tuition to the 2007-08 rates, while Dickinson County tuition increased 3.5% and other in-state resident tuition increased 5%. The College projected 5.6% growth in enrollment for the 2008-09 academic year with the bulk of this increase occurring at the newly opened West Campus. Fall 2008 enrollments increased 9% over the prior fall with increases occurring across all venues. The West Campus accounted for a significant portion of the overall increase.

Bay de Noc Community College

Management's Discussion and Analysis

The College is participating in a Lumina Foundation four-year Achieving the Dream project with a focus on increasing student retention and thereby student success. The project includes annual funding to support major activities of the initiative. The College received notice of a Title III Strengthening Student Success in Math and Science award which begins in October 2008. The grant will provide \$1,871,000 over the next five years to fund limited renovation of existing space, and the addition of personnel to support a new supplemental instruction program for the math and science curriculum. The College plans to add instructional faculty and student support service positions during the 2008-09 academic year to support achievement of the program goals outlined for the above projects.

The foundation will complete construction of the \$4.75 million performing arts center in the fall of 2008 at which time the facility will be gifted to the college. The facility is expected to support growth in the fine arts instructional program as well as an increase in the cultural and educational speaker series.

The College is discontinuing the Michigan Public Service Commission grant funded low-interest energy enhancement revolving loan program. No additional projects will be funded. Loan repayments net of administrative costs will be returned to the State of Michigan. The College returned \$1.1 million of loan repayment monies to the MPSC in July 2008. Elimination of this program and the return of excess funds on hand will result in a reduction of restricted net assets.

The discussion and analysis of Bay de Noc Community College's (College) financial statements provides an overview of the College's financial activities for the year ended June 30, 2008. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the accuracy and completeness of this information rests with the College's Management.

Bay de Noc Community College

Statement of Net Assets

June 30, 2008

	Bay de Noc Community College	Bay de Noc Community College Foundation (Component Unit)
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,460,314	\$ 844,884
Restricted cash and cash equivalents	593,151	-
Short-term investments	-	7,673,223
State appropriations receivable	924,436	-
Grants receivable	82,981	-
Current portion of energy loans receivable	223,501	-
Other accounts receivable, net of allowance of \$211,124	797,444	33,277
Due from component unit	1,335,861	-
Prepaid expenses and other assets	634,939	-
Total current assets	8,052,627	8,551,384
Noncurrent assets:		
Bond issuance costs	46,423	-
Energy loans receivable, less current portion	509,339	-
Long-term investments	-	658,662
Beneficial interest in trust assets	-	1,403,941
Capital assets, net	25,079,369	-
Total noncurrent assets	25,635,131	2,062,603
Total assets	<u>\$ 33,687,758</u>	<u>\$ 10,613,987</u>

See accompanying notes.

	Bay de Noc Community College	Bay de Noc Community College Foundation (Component Unit)
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 1,321,261	\$ 7,500
Salaries and wages payable	381,337	-
Deferred revenue	126,778	-
Interest payable	77,927	-
Deposits and other liabilities	110,912	-
Due to College	-	1,335,862
Current portion of long-term debt	1,105,000	-
Total current liabilities	3,123,215	1,343,362
Long-term debt, less current portion	11,155,000	-
Accrued employee benefits payable	766,765	-
Total liabilities	15,044,980	1,343,362
Net assets:		
Invested in capital assets, net of related debt	12,819,369	-
Restricted:		
Nonexpendable Foundation assets	-	4,865,824
Expendable Foundation assets	-	4,373,289
Expendable:		
Restricted for energy loans	1,881,779	-
Other restricted net assets	1,483,054	-
Unrestricted (Note 13)	2,458,576	31,512
Total net assets	18,642,778	9,270,625
Total liabilities and net assets	\$ 33,687,758	\$ 10,613,987

Bay de Noc Community College

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2008

	Bay de Noc Community College	Bay de Noc Community College Foundation (Component Unit)
Operating revenues:		
Tuition and fees (net of scholarship allowances of \$2,065,845)	\$ 3,905,536	\$ -
Federal grants and contracts	3,265,837	-
State and local grants and contracts	431,066	-
Auxiliary enterprises	154,188	-
Other revenues	1,528,409	-
Total operating revenues	<u>9,285,036</u>	<u>-</u>
Operating expenses:		
Instruction	6,212,680	-
Instructional support	2,199,744	-
Public services	302,183	-
Student services	2,080,077	218,016
Institutional administration	2,192,969	7,500
Operation and maintenance of plant	1,884,898	3,592,642
Information technology	912,837	-
Depreciation expense	1,508,152	-
Total operating expenses	<u>17,293,540</u>	<u>3,818,158</u>
Operating loss	(8,008,504)	(3,818,158)
Nonoperating revenues (expenses):		
State appropriations	7,658,103	-
Property tax levy	3,687,099	-
Gifts and donations	517,847	2,789,345
Investment income - net	94,559	(291,282)
Interest on long-term debt	(504,464)	-
Net nonoperating revenues (expenses)	<u>11,453,144</u>	<u>2,498,063</u>
Increase in net assets	3,444,640	(1,320,095)
Net assets - beginning of year	15,198,138	10,590,720
Net assets - end of year	<u><u>\$ 18,642,778</u></u>	<u><u>\$ 9,270,625</u></u>

See accompanying notes.

Bay de Noc Community College

Statement of Cash Flows

Year ended June 30, 2008

	Bay de Noc Community College	Bay de Noc Community College Foundation (Component Unit)
Cash flows from operating activities		
Tuition and fees	\$ 3,952,103	\$ -
Grants and contracts	3,819,226	-
Auxiliary enterprises charges and other revenues	1,767,898	-
Payments to suppliers	(7,555,628)	-
Payments to employees	(8,225,818)	(2,880,703)
Net cash used in operating activities	(6,242,219)	(2,880,703)
Cash flows from noncapital financing activities		
State appropriations	4,992,579	-
Local property taxes	3,688,337	-
Gifts and donations	517,847	489,647
Energy loan receipts, including interest	519,926	-
Net cash provided by noncapital financing activities	9,718,689	489,647
Cash flows from capital and related financing activities		
Purchase of property and equipment	(3,653,689)	-
Proceeds from State capital appropriations	1,896,941	-
Proceeds from bond issuance	2,775,000	-
Principal paid on long-term debt	(2,685,696)	-
Interest paid on long-term debt	(504,950)	-
Net cash used in capital and related financing activities	(2,172,394)	-
Cash flows from investing activities		
Net proceeds from sales and maturities of investments	-	8,589,627
Purchases of investments	-	(8,479,252)
Interest on investments and cash equivalents	68,592	257,186
Net cash provided by investing activities	68,592	367,561
Net increase (decrease) in cash and cash equivalents	1,372,668	(2,023,495)
Cash and cash equivalents - beginning of year	2,680,797	2,868,379
Cash and cash equivalents - end of year	\$ 4,053,465	\$ 844,884

See accompanying notes.

	Bay de Noc Community College	Bay de Noc Community College Foundation (Component Unit)
	<u> </u>	<u> </u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (8,008,504)	\$ (3,818,158)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	1,508,152	-
Changes in assets and liabilities:		
Due from component unit	(936,954)	-
Federal and state grants receivable	240,857	-
Other accounts receivable (net)	109,086	-
Inventories		-
Prepaid expenses and other assets	92,152	-
Accounts payable	801,405	500
Accrued payroll and other compensation	67,707	-
Deferred revenue	(116,120)	-
Due to College	-	936,955
Net cash used in operating activities	<u><u>\$ (6,242,219)</u></u>	<u><u>\$ (2,880,703)</u></u>

See accompanying notes.

Bay de Noc Community College

Notes to Financial Statements

June 30, 2008

1. Summary of Significant Accounting Policies

Nature of Operations

Bay de Noc Community College is a Michigan community college located in Delta County in the Upper Peninsula of Michigan.

Reporting Entity

The accompanying financial statements as of and for the year ended June 30, 2008 include the accounts of all funds of Bay de Noc Community College (College) and Bay de Noc Community College Foundation (Foundation). The Foundation is considered a component unit of the College. The College reports financial information for the Foundation using a discrete rather than blended presentation because the individual trustees of the Foundation are independently appointed by the Foundation's Board of Trustees. The Foundation is considered a component unit because the College has the ability to influence the operations of the Foundation through the ongoing routine management of the Foundation by College employees and the Foundation provides services entirely, or almost entirely, to the College. Transactions with the Foundation primarily relate to providing financial support to students of the College.

A copy of the Foundation's separately issued financial statements may be obtained by contacting the Foundation's office at the College.

Basis of Presentation

The College's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 35 – *Basic Financial Statements – and Management's Discussion and Analysis - for Public Colleges and Universities*. The College follows the "business-type activities" reporting requirements of GASB Statement No. 35, which provides a comprehensive one-line look at the College's financial activities.

Generally accepted accounting principles applicable to the College would include all GASB pronouncements and all nonconflicting Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The College has elected not to apply FASB pronouncements issued after November 30, 1989.

Bay de Noc Community College

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Operating revenues of the College consist of tuition and fees, grants and contracts, services of educational activities, and auxiliary enterprise revenues. Transactions related to capital financing activities, noncapital financing activities, investing activities, and State appropriations are components of nonoperating income.

The accompanying financial statements include the accounts and balances of the Bay de Noc Community College Foundation in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The Foundation is a private nonprofit organization that reports under FASB standards, including FASB No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

Basis of Accounting

The financial statements of the College have been prepared on the accrual basis and are generally in accordance with the accounting principles outlined in the State of Michigan Board of Education's *Manual for Uniform Financial Reporting – Michigan Public Community Colleges, 2001*.

Internal Services Activities

Both revenue and expenses related to internal service activities have been eliminated. Tuition and fees and auxiliary enterprise revenues are reported net of scholarship allowances.

Revenue Recognition

The College generally follows the revenue recognition methods set forth in the *Manual for Uniform Financial Reporting – Michigan Public Community Colleges, 2001*. Property taxes are recorded as revenue in the year taxes are levied. Under this method, revenue for fiscal year 2008 includes property taxes that were levied on July 1, 2007 and generally collected before March 1, 2008. State appropriations are recorded as revenue in the period for which they are appropriated. Changes to State appropriations are recorded in the College's fiscal year in which the changes are approved by the State legislature. In general, revenues are recognized when earned and expenditures are recognized when the service is provided. When both general purpose and restricted revenues are available for use, it is the College's policy to use restricted resources first.

Bay de Noc Community College

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Deferred Revenue Recognition

Revenue received prior to year-end, which is related to the next fiscal period, is recorded as deferred revenue. Deferred revenue relates primarily to summer-term tuition received prior to June 30 and grant and award monies received in excess of costs incurred as of year-end for College programs financed by government agencies and other organizations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash in banks, and all highly liquid investments, including certificates of deposit, with an initial maturity of twelve months or less.

Accounts Receivable

Accounts receivable resulting from Federal and State grants, State appropriations, and student tuition consist of operating revenues recorded, but not received as of June 30, 2008, for the year then ended. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal student payment periods. In addition, a general valuation allowance is established for other student accounts receivable based on historical loss experience.

Energy Loans Receivable

Energy loans receivable were funded through a grant from the Michigan Public Service Commission (MPSC). Low interest loans are provided to public and private entities for purposes of investing in energy consumption reduction technology. Grant funds and loan repayments are restricted for loans and related administrative expenses. Management reviews the receivables periodically for uncollectible amounts. At June 30, 2008, an allowance of \$298,382 has been provided for amounts where collectability is questionable.

Bay de Noc Community College

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Investments

Investments are stated at fair market value, based on quoted market prices or estimated fair value.

Inventories

Inventories are recorded at the lower of cost or market on a first-in, first-out basis.

Capital Assets

Recorded capital assets are stated at estimated cost and include expenditures for new facilities and equipment and for significant improvements to existing facilities. Depreciation is computed using the straight-line method. No depreciation is recorded on land. Expenditures for major renewals and betterments that extend the useful lives are capitalized. The following estimated useful lives are used to compute depreciation:

Land improvements	7-10 years
Infrastructure	10-20 years
Buildings and improvements	20-40 years
Furniture and equipment	5-10 years
Library books	7 years
Vehicles	7 years

Net Assets

GASB Statement No. 34 reports equity as “net assets” rather than “fund balance.” Net assets are classified according to the external donor restrictions or availability of assets for satisfaction of College obligations.

A summary of restricted net assets of the College as of June 30, 2008 is as follows:

Restricted for energy loans	\$ 1,881,779
Restricted for bond proceeds	593,151
Restricted for capital asset maintenance and debt service	649,496
Restricted for professional development	70,947
Restricted for member funds on deposit	169,460
	<hr/>
	\$ 3,364,833

Restricted net assets totaled \$3,364,833, of which \$649,496 was restricted by enabling legislation.

Bay de Noc Community College

Notes to Financial Statements (continued)

2. Cash and Investments

The College has adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The provisions of Statement No. 40 were adopted for the Foundation investments. The College does not have investments.

Investments

The College does not have a formal investment policy as the majority of monies are held in demand accounts.

The Foundation invests with the long-term objectives of: 1) income and appreciation, 2) preservation of principal, and 3) maintaining adequate liquidity. The Foundation's Board of Trustees reviews investment performance on a quarterly basis to ensure compliance with the prescribed policy.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the policy states that the majority of its portfolio (40-65%) should be invested in equity securities. Fixed income securities may comprise a minimum of 35% to a maximum of 60% of the investment portfolio.

As of June 30, 2008, the Foundation had the following investments and maturities:

	Fair Market Value	Less Than One Year	1-3 Years	More Than 3 Years
Mutual and money market funds	\$ 7,532,123	\$ -	\$ -	\$ 7,532,123
U.S. agency securities	237,309	70,621	131,582	35,106
Corporate bonds	168,723	70,479	-	98,244
Common and preferred stocks	393,730	-	-	393,730
	<u>\$ 8,331,885</u>	<u>\$ 141,100</u>	<u>\$ 131,582</u>	<u>\$ 8,059,203</u>

Bay de Noc Community College

Notes to Financial Statements (continued)

2. Cash and Investments (continued)

Credit Risk

Credit risk is the risk that an issuer of, or counterparty to, an investment will not fulfill its obligations. The Foundation's investment policy only allows equity investments in good quality domestic or international companies and only fixed income securities rated BBB or better by Standard and Poor's and BAA or better by Moody's.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The Foundation's investment policy limits investments in any one issuer to 5% or less of assets under management. There is no limit on investments issued by the U.S. Government.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Foundation's investment policy allows investments up to 10% of the equity portion of the portfolio.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the deposits may not be returned. The College does not have a policy for custodial credit risk. However, cash balances are maintained at high quality financial institutions. The Foundation allows investment in certificates of deposit at institutions with capital and surplus in excess of \$2 billion and insured by the FDIC or FSLIC.

At June 30, 2008, the carrying amount of cash deposits at banks for the College totaled \$4,050,228 while the bank balance totaled \$4,900,812. Of the bank amounts, \$475,913 was insured and the remaining \$4,424,899 was uninsured and uncollateralized. The carrying amount of cash deposits for the Foundation was \$844,884, which approximated bank balances, and of which \$168,172 was insured.

Restricted Cash

Cash has been restricted in the amount of \$593,151 for bond proceeds from the 2007 Building and Site Refunding which were unspent as of June 30, 2008. These funds will be used in the 2009 fiscal year to complete the reconstruction of the Student Center Building.

Bay de Noc Community College

Notes to Financial Statements (continued)

3. Capital Assets

The following presents the changes in the various capital asset categories for the year ended June 30, 2008:

	Balance at July 1, 2007	Additions	Deletions	Balance at June 30, 2008
Land and improvements	\$ 1,333,913	\$ 419,087	\$ -	\$ 1,753,000
Infrastructure	99,225	-	-	99,225
Construction in progress	9,817,349	676,159	9,804,382	689,126
Building and improvements	20,552,711	11,366,255	-	31,918,966
Equipment and furniture	13,390,656	932,330	121,498	14,201,488
Library	684,796	23,077	-	707,873
Vehicles	153,149	41,163	-	194,312
Total capital assets	46,031,799	13,458,071	9,925,880	49,563,990
Accumulated depreciation	23,097,967	1,508,152	121,498	24,484,621
Capital assets – net	<u>\$ 22,933,832</u>	<u>\$11,949,919</u>	<u>\$ 9,804,382</u>	<u>\$ 25,079,369</u>

Construction in progress primarily represents the construction of the West Campus located in Iron Mountain, Michigan. During April 2006, the College issued \$6,800,000 of general obligation bonds to be used to fund approximately one-half of the construction of the West Campus. The remaining source of funding for construction comes from a \$5,874,000 State of Michigan appropriation. Construction was substantially completed by the start of Fall 2007 classes.

4. Long-term Debt

Changes in long-term debt for the year ended June 30, 2008 are summarized as follows:

	Bonds Payable
Beginning balance, July 1	\$ 12,165,000
Additional debt issued	2,775,000
Payment on outstanding debt	<u>(2,680,000)</u>
Ending balance, June 30	12,260,000
Less current portion	<u>(1,105,000)</u>
Total long-term debt	<u>\$ 11,155,000</u>

Bay de Noc Community College

Notes to Financial Statements (continued)

4. Long-term Debt (continued)

Outstanding bonds payable as of June 30, 2008 are as follows:

Housing revenue bonds of 1972	\$ 140,000
General obligation building and site bonds of 1997	-
General obligation facility and site bonds of 1999	60,000
General obligation building and site bonds of 2001	840,000
General obligation refunding bonds of 2003	640,000
General obligation refunding bonds of 2003 Series II	1,365,000
General obligation facilities bonds of 2006	6,645,000
General obligation refunding bonds of 2007	2,570,000
	<hr/>
	\$12,260,000

The 1972 Housing Revenue Bonds are payable from the net revenues of the Student Housing Facility and Debt Service Grant from the Department of Housing of Urban Development. The bonds carry an average interest rate of approximately 6.56%.

The proceeds of the 1997 Building and Site Bonds were used for facility and site improvements, remodeling and re-equipping existing college facilities. The bonds carry an average interest rate of approximately 5.13%. These bonds were refinanced as part of the 2007 Building and Site Refunding Bond and were retired in the current year.

The proceeds of the 1999 Facility and Site Bonds were used for facility and site construction. The bonds carry an average interest rate of approximately 4.85%. \$440,000 of these bonds were refinanced as part of the 2007 Building and Site Refunding Bond and are held with an escrow agent and will be retired in May 2009 when they are callable. A final payment of \$60,000 is due on these bonds by the College in the 2008/2009 fiscal year.

The proceeds of the 2001 Building and Site Bonds were used for construction and rehabilitation costs of the College's Health and Applied Technology Center. The bonds carry an average interest rate of approximately 4.0%.

The proceeds of the 2003 Refunding Bonds were used to retire 1993 Refunding Bonds in the amount of \$1,535,000. The 2003 bonds carry an average interest rate of approximately 2.8% and the 1993 bonds carried an average interest rate of approximately 5.5%.

The proceeds of the 2003 Series II Refunding Bonds were used to retire 1993 Facility and Site Bonds in the amount of \$2,225,000. The 2003 bonds carry an average interest rate of approximately 3.1% and the 1993 bonds carried an average rate of approximately 4.6%.

Bay de Noc Community College

Notes to Financial Statements (continued)

4. Long-term Debt (continued)

The proceeds of the 2006 Facilities Bonds are to be used for construction costs related to the erecting, furnishing, and equipping of the College's West Campus. The bonds carry an average interest rate of approximately 4.1%.

The proceeds of the 2007 Building and Site Refunding Bonds are to be used for costs related to the remodeling, refurbishing, and re-equipping the Student Center Building and to refund \$1,250,000 of the 1997 Building and Site Bonds and \$440,000 of the 1999 Facility and Site Bonds. The bonds carry an interest rate of 4.0%.

Future debt service requirements on long-term debt for years ending after June 30, 2008 are as follows:

Year Ended June 30	Principal	Interest	Total
2009	\$ 1,105,000	\$ 486,551	\$ 1,591,551
2010	1,195,000	446,830	1,641,830
2011	1,275,000	402,341	1,677,341
2012	1,115,000	353,580	1,468,580
2013	1,185,000	310,034	1,495,034
2014–2018	2,425,000	1,056,882	3,481,882
2019–2023	2,005,000	672,624	2,677,624
2024–2027	1,955,000	213,536	2,168,536
	<u>\$ 12,260,000</u>	<u>\$ 3,942,378</u>	<u>\$ 16,202,378</u>

5. Local Property Tax Levy

The College's annual property tax on real and personal property is levied by the tax collecting governmental units on July 1 and December 1 and is based on taxable valuation as of the preceding December 31. Taxable valuation is established by the tax collecting governmental unit and is subject to possible equalization by the State.

The County maintains a delinquent tax revolving fund through which the College receives 100% of all delinquent real property taxes turned over to the County by the tax collecting governmental units.

The College's annual tax levy is allocated between the various funds in accordance with the Board of Trustees' annual tax allocation plan. In accordance with Board policy, the General Fund pays 100% of the other fund allocations and therefore only the General Fund has any delinquent taxes receivable.

Bay de Noc Community College

Notes to Financial Statements (continued)

6. Retirement Benefits and Deferred Compensation

Plan Description

The College participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan. The MPSERS provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPSERS. This report may be obtained by writing to the MPSERS at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Michigan Public School Employees' Retirement System

The College is required to contribute 16.72% of all eligible employees' salaries to the MPSERS. This rate became effective October 1, 2007 and represents a decrease from the prior rate of 17.74%. Employees who are members of the Member Investment Plan (MIP) are required to contribute 3% to 4% of their salary to the MPSERS. In addition, some employees are contributing additional amounts through a tax deferred payment program to purchase additional years of service. Total contributions to the MPSERS for the years ended June 30, 2008, 2007 and 2006 totaled \$939,699, \$899,902 and \$880,631, which consisted of \$787,157, \$760,008 and \$737,124 respectively from the College and \$152,542, \$139,894 and \$143,507, respectively from employees.

Optional Defined Contribution Plan

Full-time salaried faculty and administrators may elect to participate in the Bay de Noc Community College Optional Retirement Plan (Optional Plan), a defined contribution plan administered by the College. New employees can elect to participate in either the Optional Plan or the MPSERS. Employees electing the Optional Plan who are members of the MPSERS retain a limited membership in the MPSERS.

The College is required to contribute 12% of participating employees' salaries to the Optional Plan. Plan contributions are placed in a segregated employee account that the employee may allocate to the various funding vehicles permitted by the Plan. All contributions are fully vested when made. Total contributions for the years ended June 30, 2008, 2007 and 2006 were \$362,549, \$333,204 and \$326,288, respectively.

The plan provides for various benefit payment options. The amount of benefits paid is predicated on the balance in the employees' segregated account when benefit payments begin.

Bay de Noc Community College

Notes to Financial Statements (continued)

7. Compensated Absences

The College records amounts payable for compensated absences as a fund liability when benefits become vested and subject to payment upon employee termination. The following summarizes specific policies with regard to compensated absences.

Vacation

In general, employees may accumulate no more than thirty days vacation. Upon termination, employees are entitled to payment, at their current rate, of 100% of their accumulated vacation days up to the maximum of thirty days. The College records this liability at 100% of the accumulated benefits since the accumulation is based upon past employee service and is fully vested.

Sick Leave

In general, employees may accumulate unused sick leave (no limitation for faculty and up to 130 days for administrative and support staff), however, sick leave is payable only when sick leave is actually used. Upon termination, accumulated sick leave is not vested, and accordingly, no liability is recorded for the accumulated sick leave.

8. Early Retirement Incentive

Full-time Faculty

In lieu of an early retirement program or payment for unused sick time, a faculty member who has not less than ten years of full-time services as a full-time faculty member of the College and is otherwise qualified to retire under MPSERS or the equivalent using the MPSERS formula if in the alternate retirement plan, qualifies for a retirement incentive payment upon termination of their employment with the College. This payment is equal to twenty-five percent of their last year's base salary. The teachers are not eligible for this if they are discharged "for cause," they are not teaching full-time when they terminate employment with the College, or if they have failed to give the prescribed notice for termination.

Bay de Noc Community College

Notes to Financial Statements (continued)

8. Early Retirement Incentive (continued)

Administrative Staff

The College recognizes administrator loyalty to the College by providing a financial benefit upon the qualifying administrator's retirement. The administrator must be employed by the College for a minimum of ten consecutive years and retire in accordance with the MPSERS guidelines. The employee will receive a percentage of their annual salary based on their number of full-time employment years and previous full fiscal year salary as listed below:

- 25 or more years of service – financial benefit is 25% of annual salary
- 20 to 24 years of service – financial benefit is 23% of annual salary
- 15 to 19 years of service – financial benefit is 21% of annual salary
- 10 to 14 years of service – financial benefit is 19% of annual salary

The College records a liability for these benefits over the period earned by the employees based on the likelihood that a benefit will be paid out upon retirement or termination from the College. The total liability for these benefits was approximately \$521,000 at June 30, 2008. The College recognized an expense associated with early retirement incentives of approximately \$12,000 for the year ended June 30, 2008.

9. Bay de Noc Community College Foundation

The Bay de Noc Community College Foundation, a not-for-profit corporation, was formed to solicit, collect, and invest donations made for the promotion of educational activities and capital campaigns at the College.

The Internal Revenue Service has determined that the Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision of income taxes has been recorded.

10. Commitments and Contingencies

The College has received significant financial assistance from the State and Federal agencies in the form of grants and awards. The use of these funds generally requires compliance with grantor terms and conditions and is subject to audit by the grantor agency. Disallowed expenditures resulting from grantor audits could become a liability of the College, however, Management believes that any future disallowances would not have a material effect on the College's financial statements.

Bay de Noc Community College

Notes to Financial Statements (continued)

11. Risk Management

The College is exposed to various risks of loss related to property loss, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The College's principle resource used to manage and minimize potential losses is through the purchase of commercial insurance policies, including participation in the Michigan Community College Risk Management Authority (MCCRMA), a risk management fund that includes other community colleges in the State of Michigan. Coverage includes a deductible up to a specific amount, retention that is paid from member funds on deposits, stop loss fund that is funded with MCCRMA accumulated earnings, and reinsurance for claims balances in excess of deductible, retention, and stop loss. The member annual aggregate for retentions/deductibles is a combined annual aggregate of \$45,000. The stop loss funds cover all claims from annual aggregate to the point of reinsurance. The College has excess funds on deposit with MCCRMA of \$169,460 at June 30, 2008. For the last three years, settled claims have not exceeded insurance coverage, nor has there been any reduction in insurance coverage.

12. Subsequent Events

The College is terminating the revolving loan program which was funded with MPSC grants. The College remitted \$1,148,942 to the MPSC on July 21, 2008, which reflects a return of \$918,825 on grant PSC 03-01, \$66,967 on PSC 05-13, and \$163,151 on PSC 05-27. The College will continue to remit annually the excess funds received on loan repayments.

The College received notice of award for a Federal U.S. Department of Education Title III grant, which has a budget begin date of October 1, 2008. This is a five year grant totaling \$1,870,943, with annual funding amounts in excess of \$300,000.

13. Unrestricted Net Assets

The College, through Board action, has designated the use of \$1,072,000 in unrestricted net assets for future capital and technology expenditures.

14. Reclassification of Prior Year Restricted Net Assets

The June 30, 2007 unrestricted net assets are increased by \$162,275 due to the reclassification of net assets previously reported as other restricted net assets. This reclassification of the June 30, 2007 net assets is made to conform with the 2008 presentation.

Supplemental Information

Bay de Noc Community College
Combining Statement of Net Assets

June 30, 2008

	General Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Plant Fund	Agency Fund	Eliminations	Combined Totals
Assets							
Current assets:							
Cash and cash equivalents	\$ 3,390,044	\$ 43,498	\$ 26,772	\$ -	\$ -	\$ -	\$ 3,460,314
Restricted cash and cash equivalents	-	-	-	593,151	-	-	593,151
State appropriations receivable	924,436	-	-	-	-	-	924,436
Grants receivable	82,981	-	-	-	-	-	82,981
Current portion of energy loans receivable	-	-	229,370	-	-	(5,869)	223,501
Other accounts receivable, net of allowance of \$211,124	398,346	68,156	-	330,942	-	-	797,444
Due from component unit	1,335,861	-	-	-	-	-	1,335,861
Prepaid expenses and other assets	634,939	-	-	-	-	-	634,939
Due from (to) other funds	(2,526,053)	(79,969)	1,122,167	1,422,058	61,797	-	-
Total current assets	4,240,554	31,685	1,378,309	2,346,151	61,797	(5,869)	8,052,627
Noncurrent assets:							
Bond issuance costs	-	-	-	46,423	-	-	46,423
Energy loans receivable, less current portion	-	-	550,889	-	-	(41,550)	509,339
Capital assets, net	-	-	-	25,079,369	-	-	25,079,369
Total noncurrent assets	-	-	550,889	25,125,792	-	(41,550)	25,635,131
Total assets	<u>\$ 4,240,554</u>	<u>\$ 31,685</u>	<u>\$ 1,929,198</u>	<u>\$ 27,471,943</u>	<u>\$ 61,797</u>	<u>\$ (47,419)</u>	<u>\$ 33,687,758</u>

Bay de Noc Community College

Combining Statement of Net Assets (continued)

June 30, 2008

	General Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Plant Fund	Agency Fund	Eliminations	Combined Totals
Liabilities and net assets							
Current liabilities:							
Accounts payable	\$ 1,321,261	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,321,261
Salaries and wages payable	381,337	-	-	-	-	-	381,337
Deferred revenue	126,778	-	-	-	-	-	126,778
Interest payable	-	-	-	77,927	-	-	77,927
Deposits and other liabilities	35,660	13,455	-	-	61,797	-	110,912
Current portion of long-term debt	-	-	-	1,110,869	-	(5,869)	1,105,000
Total current liabilities	1,865,036	13,455	-	1,188,796	61,797	(5,869)	3,123,215
Long-term debt, less current portion	-	-	-	11,196,550	-	(41,550)	11,155,000
Accrued employee benefits payable	766,765	-	-	-	-	-	766,765
Total liabilities	2,631,801	13,455	-	12,385,346	61,797	(47,419)	15,044,980
Net assets:							
Invested in property and equipment, net of related debt	-	-	-	12,771,950	-	47,419	12,819,369
Restricted:							
Reserve for energy loans	-	-	1,929,198	-	-	(47,419)	1,881,779
Other reserves	240,407	-	-	1,242,647	-	-	1,483,054
Unrestricted	1,368,346	18,230	-	1,072,000	-	-	2,458,576
Total net assets	1,608,753	18,230	1,929,198	15,086,597	-	-	18,642,778
Total liabilities and net assets	\$ 4,240,554	\$ 31,685	\$ 1,929,198	\$ 27,471,943	\$ 61,797	\$ (47,419)	\$ 33,687,758

Bay de Noc Community College

Combining Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2008

	General Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Plant Fund	Eliminations	Combined Totals
Operating revenues:						
Tuition and fees (net of scholarship allowances of \$2,065,845)	\$ 5,971,381	\$ -	\$ -	\$ -	\$ (2,065,845)	\$ 3,905,536
Federal grants and contracts	-	17,128	3,248,709	-	-	3,265,837
State and local grants and contracts	-	-	437,391	-	(6,325)	431,066
Auxiliary enterprises	-	177,800	-	-	(23,612)	154,188
Other revenues	1,066,767	-	-	461,642	-	1,528,409
Total operating revenues	7,038,148	194,928	3,686,100	461,642	(2,095,782)	9,285,036
Operating expenses:						
Instruction	6,052,573	-	206,588	-	(46,481)	6,212,680
Instructional support	1,734,958	-	479,026	-	(14,240)	2,199,744
Public services	59,480	-	242,703	-	-	302,183
Student services	1,158,368	139,610	2,905,601	-	(2,123,502)	2,080,077
Institutional administration	2,192,969	-	-	-	-	2,192,969
Operation and maintenance of plant	1,568,852	-	-	316,046	-	1,884,898
Information technology	912,837	-	-	-	-	912,837
Depreciation expense	-	-	-	1,508,152	-	1,508,152
Total operating expenses	13,680,037	139,610	3,833,918	1,824,198	(2,184,223)	17,293,540
Operating income (loss)	(6,641,889)	55,318	(147,818)	(1,362,556)	88,441	(8,008,504)
Nonoperating revenues (expenses):						
State appropriations	5,537,034	-	-	2,121,069	-	7,658,103
Property tax levy	2,101,477	-	-	1,585,622	-	3,687,099
Gifts/donations	-	-	21,371	496,476	-	517,847
Investment income - net	62,695	-	25,966	5,898	-	94,559
Interest on long-term debt	-	-	-	(504,464)	-	(504,464)
Net nonoperating revenues (expenses)	7,701,206	-	47,337	3,704,601	-	11,453,144
Income (loss) before other revenue and expenses	1,059,317	55,318	(100,481)	2,342,045	88,441	3,444,640
Other revenue and expenses:						
Current fund capital expenditures	-	-	-	88,441	(88,441)	-
Transfers in (out)	(1,072,000)	(40,000)	-	1,112,000	-	-
Total other revenue and expenses	(1,072,000)	(40,000)	-	1,200,441	(88,441)	-
Increase (decrease) in net assets	(12,683)	15,318	(100,481)	3,542,486	-	3,444,640
Net assets - beginning of year	1,621,436	2,912	2,029,679	11,544,111	-	15,198,138
Net assets - end of year	<u>\$ 1,608,753</u>	<u>\$ 18,230</u>	<u>\$ 1,929,198</u>	<u>\$ 15,086,597</u>	<u>\$ -</u>	<u>\$ 18,642,778</u>

Bay de Noc Community College

Comparative Statements of Net Assets

Assets	June 30	
	2008	2007
Current assets:		
Cash and cash equivalents	\$ 3,460,314	\$ 2,385,129
Restricted cash and cash equivalents	593,151	295,668
State appropriations receivable	924,436	379,981
Grants receivable	82,981	323,838
Current portion of energy loans receivable	223,501	273,690
Other accounts receivable, net of allowance of \$211,124 for 2008 and \$159,902 for 2007	797,444	679,110
Due from component unit	1,335,861	398,907
Inventories	-	-
Prepaid expenses and other assets	634,939	706,804
Total current assets	<u>8,052,627</u>	<u>5,443,127</u>
Noncurrent assets:		
Bond issuance costs	46,423	66,710
Energy loans receivable, less current portion	509,339	947,414
Capital assets, net	25,079,369	22,933,832
Total noncurrent assets	<u>25,635,131</u>	<u>23,947,956</u>
Total assets	<u><u>\$ 33,687,758</u></u>	<u><u>\$ 29,391,083</u></u>

See accompanying notes.

	June 30	
	2008	2007
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 1,321,261	\$ 519,857
Salaries and wages payable	381,337	352,099
Deferred revenue	126,778	249,232
Interest payable	77,927	78,413
Deposits and other liabilities	110,912	100,048
Current portion of long-term debt	1,105,000	985,000
Total current liabilities	<u>3,123,215</u>	<u>2,284,649</u>
Long-term debt, less current portion	11,155,000	11,180,000
Accrued employee benefits payable	<u>766,765</u>	<u>728,296</u>
Total liabilities	<u>15,044,980</u>	<u>14,192,945</u>
Net assets:		
Invested in capital assets, net of related debt	12,819,369	10,768,832
Restricted:		
Restricted for energy loans	1,881,779	1,976,564
Other restricted net assets	1,483,054	1,059,828
Unrestricted	<u>2,458,576</u>	<u>1,392,914</u>
Total net assets	<u>18,642,778</u>	<u>15,198,138</u>
Total liabilities and net assets	<u>\$ 33,687,758</u>	<u>\$ 29,391,083</u>

Bay de Noc Community College

Comparative Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2008	2007
Operating revenues:		
Tuition and fees (net of scholarship allowances of \$2,065,845 in 2008 and \$1,838,284 in 2007)	\$ 3,905,536	\$ 3,359,760
Federal grants and contracts	3,265,837	3,170,534
State and local grants and contracts	431,066	525,387
Auxiliary enterprises	154,188	388,656
Other revenues	1,528,409	664,786
Total operating revenues	<u>9,285,036</u>	<u>8,109,123</u>
Operating expenses:		
Instruction	6,212,680	5,669,077
Instructional support	2,199,744	2,436,899
Public services	302,183	248,602
Student services	2,080,077	2,195,511
Institutional administration	2,192,969	1,751,400
Operation and maintenance of plant	1,884,898	1,431,285
Information technology	912,837	730,244
Depreciation expense	1,508,152	1,145,747
Total operating expenses	<u>17,293,540</u>	<u>15,608,765</u>
Operating loss	<u>(8,008,504)</u>	<u>(7,499,642)</u>
Nonoperating revenues (expenses):		
State appropriations	7,658,103	7,850,800
Property tax levy	3,687,099	3,519,168
Gifts and donations	517,847	25,855
Investment income - net	94,559	81,127
Interest on long-term debt	(504,464)	(223,728)
Net nonoperating revenues (expenses)	<u>11,453,144</u>	<u>11,253,222</u>
Increase in net assets	<u>3,444,640</u>	<u>3,753,580</u>
Net assets - beginning of year	<u>15,198,138</u>	<u>11,444,558</u>
Net assets - end of year	<u><u>\$ 18,642,778</u></u>	<u><u>\$ 15,198,138</u></u>

See accompanying notes.

Bay de Noc Community College

West Campus Statement of Revenues, Expenses, and Changes in Net Assets

Year Ended June 30, 2008

	General Fund	Plant Fund
Operating revenues:		
Tuition and fees	\$ 1,316,803	\$ -
Other revenues	426,914	433,984
Total operating revenues	1,743,717	433,984
Operating expenses:		
Instruction	823,079	-
Instructional support	109,463	-
Public services	727	-
Student services	101,168	-
Institutional administration	303,476	-
Operation and maintenance of plant	240,169	-
Information technology	128,334	-
Total operating expenses	1,706,416	-
Operating loss	37,301	433,984
Nonoperating revenues (expenses):		
Interest on long-term debt	-	(277,973)
Transfer to debt service	-	(155,000)
Net nonoperating revenues (expenses)	-	(432,973)
Increase in net assets	37,301	1,011
Net assets - beginning of year	-	-
Net assets - end of year	\$ 37,301	\$ 1,011

See accompanying notes.

Bay de Noc Community College

Schedule of Bonds Payable

June 30, 2008

Description	Interest Rate	Maturity Date	Balance Outstanding July 1, 2007	Additions	Principal Payments	Balance Outstanding June 30, 2008	Source of Funds for Repayment
Housing Revenue Bonds of 1972	6.5 to 7.5%	School year ended in 2011	\$ 180,000	\$ -	\$ 40,000	\$ 140,000	Net revenues of student housing project and a debt service grant from Department of Housing and Urban Development. Principal of \$45,000 and interest of \$8,960 due in school year ended 2009.
General Obligation Building and Site Bonds of 1997	4.7 to 6.2%	School year ended in 2013	1,250,000	-	1,250,000	-	Bonds were refinanced in the 2008 fiscal year as part of the 2007 Building & Site Refinancing Bond issue.
General Obligation Facility and Site Bonds of 1999	4.1 to 5.1%	School year ended in 2014	560,000	-	500,000	60,000	Allocated property taxes. Principal of \$60,000 and interest of \$3,000 payable in school year ended 2009. \$440,000 of the bonds were refinanced in the 2008 fiscal year as part of the 2007 Building & Site Refinancing Bond issue.
General Obligation Building and Site Bonds of 2001	3.0 to 4.6%	School year ended in 2014	935,000	-	95,000	840,000	Allocated property taxes. Principal of \$100,000 and interest of \$36,338 payable in school year ended 2009.
General Obligation Refunding Bonds of 2003	1.5 to 3.2%	School year ended in 2011	840,000	-	200,000	640,000	Allocated property taxes. Principal of \$205,000 and interest of \$18,286 payable in school year ended 2009.
General Obligation Series II Refunding Bonds of 2003	1.5 to 3.5%	School year ended in 2013	1,600,000	-	235,000	1,365,000	Allocated property taxes. Principal of \$255,000 and interest of \$44,383 payable in school year ended 2009.
General Obligation Facilities Bonds of 2006	4.0 to 4.4%	School year ended in 2027	6,800,000	-	155,000	6,645,000	Allocated intergovernmental agreement. Principal of \$175,000 and interest of \$272,784 payable in school year ended 2009.
General Obligation Building and Site Refunding Bonds of 2007	4.00%	School year ended in 2014	-	2,775,000	205,000	2,570,000	Allocated property taxes. Principal of \$265,000 and interest of \$102,800 payable in school year ended 2009.
Total			\$ 12,165,000	\$ 2,775,000	\$ 2,680,000	\$ 12,260,000	

Single Audit



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Laura L. Schwalbach, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Board of Trustees
Bay de Noc Community College
Escanaba, Michigan

We have audited the financial statements of Bay de Noc Community College (College) as of and for the year ended June 30, 2008, and have issued our report thereon dated October 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the College, in a separate letter dated October 31, 2008.

This report is intended solely for the information and use of management, Board of Trustees, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Anderson, Tackman & Company P.C." in a cursive, slightly stylized font.

Anderson, Tackman & Company, PLC
Certified Public Accountants

October 31, 2008



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Trustees
Bay de Noc Community College
Escanaba, Michigan

Compliance

We have audited the compliance of Bay de Noc Community College (College), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the College's compliance with those requirements.

In our opinion, the College, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Board of Trustees, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Anderson, Tackman & Company P.C." in a cursive, flowing script.

Anderson, Tackman & Company, PLC
Certified Public Accountants

October 31, 2008

Bay de Noc Community College
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Federal/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Approved Awards Amount	Federal Expenditures
U.S. Department of Education Clusters				
Student Financial Assistance Cluster:				
Federal Supplemental Educational				
Opportunity Grants	84.007	P007A071980	\$ 56,102	\$ 56,102
Federal Work Study Program	84.033	P033A071980	176,474	176,474
Federal Pell Grant Program	84.063	P063P071624	2,449,077	2,449,077
Federal Academic Competitive Grant	84.375	P375A071624	30,096	30,096
Federal Family Education Loan Program	84.032	N/A	1,850,226	1,850,226
Total Student Financial Assistance Cluster			4,561,975	4,561,975
TRIO Cluster:				
Student Support Services	84.042A	P042A050467-07	278,316	276,998
Total TRIO Cluster			278,316	276,998
Total U.S. Department of Education Clusters			4,840,291	4,838,973
Other Federal Awards				
U.S. Department of Education - Passed Through				
Michigan Department of Education:				
Vocational Education:				
Vocational Education	84.048A	073510-70212	202,081	202,081
Vocational Education	84.048A	073250-70252	18,386	18,386
Vocational Education	84.048A	073290-70292	1,561	1,561
Passed Through Marquette-Alger Regional				
Education Service Agency:				
Vocational Education	84.243A	083540-8014-02	11,030	11,030
Total Vocational Education			233,058	233,058
Total U.S. Department of Education - Passed				
Through Michigan Department of Education			233,058	233,058
U.S. Department of Health and Human Services -				
Passed Through Michigan Office of Services to				
the Aging under Older Americans Act:				
Centers for Disease Control & Prevention	93.988	U32/CCU522710-07/08	25,000	12,273
Centers for Disease Control & Prevention	93.988	U32/CCU522710-06/07	52,000	14,633
Total U.S. Department of Health and				
Human Services			77,000	26,906
U.S. Department of Housing and Urban Development:				
Title IV-Housing Act of 1950 College Housing				
Program Service Debt	14.H502506	CHMICH166D	-	17,128
Total U.S. Department of Housing and Urban				
Development			-	17,128
Total Other Federal Awards			310,058	277,092
Total Expenditures of Federal Awards			\$ 5,150,349	\$ 5,116,065

Bay de Noc Community College

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

Significant Accounting Policies

The accompanying Schedule of Expenditure of Federal Awards includes the federal grant activity of Bay de Noc Community College and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Bay de Noc Community College

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified? Yes X No

Significant deficiency identified not considered to
be material weakness? Yes X None reported

Noncompliance material to financial statements
noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness identified? Yes X No

Significant deficiency identified not considered to
be material weakness? Yes X None reported

Type of auditor's report issued on compliance for
major programs: Unqualified

Any audit findings disclosed that are required to be
reported in accordance with OMB Circular A-133,
Section .510(a)? Yes X No

Bay de Noc Community College

Schedule of Findings and Questioned Costs (continued)

Section I - Summary of Auditor's Results (continued)

Federal Awards (continued)

Identification of Major Programs:

<u>Federal CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work Study Program
84.063	Federal Pell Grant Program
84.032	Federal Family Education Loan Program
84.375	Academic Competitiveness Grant

Dollar threshold used to distinguish between

Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

 X Yes

 No

Section II - Financial Statements Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

Bay de Noc Community College
Summary Schedule of Prior Year Findings
Year Ended June 30, 2008

None.

Bay de Noc Community College

Report to Management

Year Ended June 30, 2008



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

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Laura L. Schwalbach, CPA

October 31, 2008

To the Board of Trustees
Bay de Noc Community College

We have audited the financial statements of Bay de Noc Community College (College) for the year ended June 30, 2008, and have issued our report thereon dated October 31, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 21, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated July 21, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the College are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the College during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the useful lives of capital assets for the purpose of calculating depreciation expense and the allowance for doubtful accounts is based on management's knowledge of the intended use of the assets and management's knowledge of the historical collections of certain types of accounts. We evaluated the key factors and assumptions used to develop the estimated useful lives of capital assets and the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the College's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the College's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated October 31, 2008, on the financial statements of the College.

This information is intended solely for the use of the Board of Trustees and management of the College and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Anderson, Tackman & Company, PLC
Certified Public Accountants

Bay de Noc Community College
Comments and Recommendations
June 30, 2008

Payroll System

Comment:

1. We noted the payroll specialist has the ability to perform all payroll functions, which include: entering new employees into the payroll system, entering bi-weekly time cards into the payroll system, printing pre-signed checks and reconciling gross wages to the general ledger. Currently there is no review process of the payroll specialists' work.
2. The Colleges payroll system memo indicates that the payroll specialist is to produce a "Payroll Verification Report" bi-weekly and is to be reviewed by the human resources administrative assistant. Per our inquiry, this is not being done.

Recommendation:

1. We recommend a second individual perform either a bi-weekly or monthly review of the payroll process.
2. We recommend that the "Payroll Verification Report" be reviewed by the human resource department to strengthen internal controls over the payroll process.

Management Response:

1. The College's administrative software security currently does not provide the option of restricting access to certain functions within a module. Job duties and responsibilities are segregated to provide internal control over the payroll process. A secondary person routinely observing the payroll processing on a bi-weekly or monthly basis is not feasible. The payroll verification process and Human Resource office bi-weekly review of the New Employee report will strengthen the internal controls sufficiently to meet the intent of the bi-weekly or monthly process review recommendation.
2. The Business Office will distribute bi-weekly Payroll Verification reports to each department on campus. These bi-weekly Payroll Verification reports will tie to the bi-weekly payroll register. Each department will be responsible for reviewing the report and auditing names, hours and funding accounts. The Business Office will also distribute bi-weekly a New Employee report to Human Resources so that they may verify all new employees.

Bay de Noc Community College
Comments and Recommendations
June 30, 2008

Journal Entries

Comment:

Currently journal entries which are posted to the general ledger are not reviewed by a second individual.

Recommendations:

To strengthen internal controls involving journal entries, a second individual should review journal entries which are posted to the general ledger.

Management Response:

Many journal entries are recorded pursuant to a written request with supporting documentation. Currently, the Controller reviews the request and records the adjusting entry. Journal entries will continue to require supporting documentation and will be processed by business office support personnel. The Controller will routinely review a report of all journal entries posted to the general ledger. The Vice President for Administrative Services will routinely review all journal entries posted to the general ledger by the Controller.